

INDIVIDUAL TAX RETURNS ARE DUE ON OR BEFORE APRIL 17TH OF 2006 WHO IS REQUIRED TO FILE THIS RETURN?

*****If you are not required to file this income tax return, but filed last year, were required to file last year, or received this return in the mail, please complete the form on page 1 of this packet.*****

RESIDENTS (either all or part of 2005) are required to file this tax return if:

- A. You were eighteen years of age or older: **and**
- B. You received compensation as an employee and did not have 1% **Wooster** tax withheld from your compensation, or your compensation and Wooster tax withheld was not reported to the City of Wooster by your employer; **and/or**
- C. You operated a business enterprise (self-employed) either in or outside of Wooster; **and/or**
- D. You owned rental property either in or outside of Wooster; **and/or**
- E. You had an interest in a partnership, LLC or S-Corporation for which no Wooster net profits income tax was paid, or the allocation of profits or losses to Wooster was less than 100% (all business entities other than non-profits operating within Wooster must at least file a Wooster Net Profits informational return); **and/or**
- F. You had income or losses from any source not specifically exempted (see bottom of page) for which Wooster tax was not withheld, or the income or losses and Wooster tax withheld were not reported to the City of Wooster.

NON-RESIDENTS (for all of 2005) are required to file a tax return if:

- A. You operated a business (self-employed) within Wooster during the year 2005. This includes soliciting the sale of goods within Wooster on a regular basis or performing services within Wooster, even if your business location is not in Wooster; **and/or**
- B. You owned rental property within Wooster; **and/or**
- C. You had an interest in a partnership, LLC or S-Corporation which did some or all of its business in Wooster for which no Wooster net profits income tax was paid, or no losses were carried forward (all business entities, other than non-profits, who operate within Wooster must at least file a Wooster Net Profits informational return); **and/or**
- D. You earned wages, salary or other compensation while working in Wooster, and Wooster city income tax was not withheld at 1%, or the compensation and Wooster tax withheld was not reported to the City of Wooster.

WHAT INCOME IS TAXABLE FOR WOOSTER INCOME TAX?

The City of Wooster taxes all earned income received by residents who are eighteen years of age or older. The income of residents is taxable regardless of where it is earned. Residents will receive credit for taxes paid to other municipalities (see instructions for schedule R on page 6).

WHAT IS INCLUDED IN TAXABLE INCOME?

- Wages, salaries and other compensation
- Bonuses, stipends and tip income
- Commissions and fees
- Vacation pay
- Sick pay (unless sick pay is proceeds of employee paid insurance)
- Employer provided supplemental unemployment benefits
- Employee contributions to retirement plans and tax deferred annuity plans (401K, 403b, 457b, etc.)
- Net profits from rental property if monthly rent exceeds \$200 or if rental is a for profit undertaking.
- Net royalty income from tangible property
- Net profits of businesses or professions
- Income from partnerships, LLC's, estates and trusts
- Income from S-corps allocable to Ohio
- Contributions made on behalf of employees to the cost of fringe benefits
- Ordinary gains reported on federal form 4797
- Income from non-qualified plans taxable by Medicare
- Income from wage continuation plans (including retirement incentive and severance pay)
- Stocks options when exercised
- Net income from farming
- Fringe benefits taxable for federal tax purposes (including life insurance over \$50,000)
- Housing allowance for clergy included in federal taxable income
- Income from guaranteed annual wage contracts
- Director fees
- Jury duty
- Union steward fees
- Strike pay (if taxable for federal tax purposes)
- Recapture of depreciation on business assets sold
- Employer provided educational assistance included in federal taxable income
- Executor fees
- Lottery and gambling winnings
- Income not specifically exempted below

WHAT INCOME IS NOT TAXABLE?

- Interest or dividend income
- Capital gains
- Social security benefits
- State unemployment benefits
- Welfare benefits
- Worker's compensation
- Income from qualified pension plans
- Proceeds of life insurance
- Alimony
- Earnings of individuals under 18 years of age
- Military pay (including National Guard)
- Patent or copyright income
- Royalties from intangible property
- Annuity distributions
- Housing allowances for clergy to the extent that it is excluded from federal taxable income
- Health and welfare benefits distributed by governmental, charitable, religious or educational organizations
- Compensatory insurance proceeds derived from property damage or personal injury settlements.
- Third party sick pay if proceeds from insurance paid by employee
- Payroll deductions for health care excluded from federal taxable income
- Employee moving expenses received on a reimbursement basis only
- Compensation for working at electoral polls

The above lists are not all-inclusive. For items not listed, please contact the income tax department: (330) 263-5226

REQUESTING AN EXTENSION OF TIME TO FILE

In order to receive an extension of time to file a 2005 City of Wooster income tax return, the extension form (page 2) may be used. **This must be filed, with the City of Wooster's income tax department no later than April 17, 2006.** A generic form or photocopy of your federal extension request may be substituted for this form if filed with the City of Wooster's income tax department no later than April 17, 2006. Any generic form must include your name(s), social security number(s), address and the date you wish to be extended to (no later than November 30, 2006).

Interest will be charged at the rate of ½% per month, or fraction thereof, on any taxes paid after the original due date. Penalty will be charged on taxes paid after the original due date at the rate of 1% per month, with a minimum of 5%, if the amount due is greater than 10% of the total 2005 tax liability and also greater than \$100.00, or if the tax is paid after the extended due date.

Penalty will be charged at the rate stated above on all missed or late required estimated payments for the 2005 tax year. **An extension of time to file your 2005 tax return does not extend the due date for filing or paying quarterly installments of 2006 estimated taxes. Your 2006 estimate and first quarter installment is due April 30, 2006.**

HOW ARE PROFITS DETERMINED?

Net Profits for city tax purposes are determined in the same manner as net profits for federal tax purposes, after adjustments to comply with Wooster Income Tax Ordinances. Capital gains and losses, interest and dividends are not taxable for city tax purposes. In turn, you may not deduct expenses directly or indirectly associated with these types of income. Also, you may deduct ½ of the self-employment taxes incurred because of these net profits. Net profit or losses on rental property, partnerships, LLC's and S-Corp's are not affected by passive loss limitations or carryovers and should be listed on a current basis only.

HOW ARE LOSSES DETERMINED?

Net losses from a business or rental property located or operating in Wooster may be carried forward for up to five years to be applied against future profits earned in Wooster. For residents, location of the business or rental property does not matter. For any net operating loss carry forward, please attach a schedule showing the year in which the loss was incurred and any subsequent Wooster taxable income to which this loss was applied. Losses may not be carried back or used to offset W-2 income.

HOW IS THE INCOME OR LOSS FROM A PARTNERSHIP, LIMITED LIABILITY COMPANY OR S-CORPORATION REPORTED?

If you are a Wooster resident who owns an interest in a partnership, S-Corporation or limited liability company and the entity does not allocate its income to the City of Wooster at 100%, or the entity elects to pay Wooster taxes at the partner, member or shareholder level rather than the entity level, you must claim the income or loss on Schedule X of your City of Wooster income tax return. If the entity has paid Wooster tax at less than 100% of its taxable income, you must claim your share of the entity's taxable income and take credit for taxes paid to Wooster by the entity (prorated by your income percentage) on line 5 of your return. Resident S-corporation shareholders must claim income or loss allocable to the State of Ohio. You should also note the entity's name that the credit is derived from. **Be sure to attach a photocopy of the K-1 received from the partnership, S-Corporation or limited liability company. Also include a photocopy of your federal Schedule E if you have deducted personal business expenses, related to that entity, on your federal tax return.** You may also deduct ½ of self-employment tax on that income.

If you were not a resident of Wooster in 2005, and you own an interest in a partnership, LLC or S-Corporation which did business within Wooster, you must report your percentage of the income or loss from that partnership on Schedule X of your Wooster income tax return unless the entity files and pays tax as an entity to the City of Wooster. Each partnership, S-Corporation or limited liability company must file, at a minimum, an informational Wooster net profits income tax return.

WHO MUST MAKE ESTIMATED PAYMENTS?

Any individual who will have 2006 Wooster income taxes (less Wooster tax withheld and credit for taxes paid to other cities) of \$200.00 or more is required to file a declaration of estimated taxes, and make quarterly payments on the declaration. The sum of payments on estimated taxes, any overpayment from 2005, Wooster taxes withheld and credits for taxes paid other cities, must exceed the lesser of either 90% of your 2006 Wooster tax liability or 100% of your Wooster tax liability for 2005. **There is a penalty of 1% per month, or fraction of month, (with a minimum of 5% for each amount paid late) and interest of ½ % per month or fraction of month for any amounts of the minimum estimated payments due, which are not paid timely. Wooster tax withheld and credit for taxes paid other cities are considered as being paid in equal quarterly installments on the due dates for estimated payments.**

PAYMENT VOUCHERS FOR ESTIMATED TAX WILL BE MAILED QUARTERLY. Payment vouchers for the 2006 tax year may be requested on the Wooster Individual Income Tax Return or by contacting this office. The taxpayer is responsible for filing and paying any quarterly estimated tax due. Non-receipt of forms does not relieve the taxpayer of the responsibility to file forms and pay taxes due quarterly.

PENALTY AND INTEREST

Penalty and interest charges are imposed for late filing or payment of taxes due and/or underestimating income tax. Payments must be made on or before the due dates or, if mailed, postmarked on or before the due date to be considered timely. This includes estimated payments. Penalties are 1% per month (or fraction thereof) per installment, with a minimum penalty per installment of 5%.

HOW DO I CALCULATE TAXABLE WAGES IF I LIVED IN WOOSTER FOR A FRACTION OF THE YEAR?

These examples are for individuals who did not earn wages in Wooster. All wages earned within Wooster are taxable.

Wages can be calculated one of two ways. If you have saved pay stub(s), you may take the last pay stub that shows amount earned while living in Wooster, and use the amount shown for medicare wages as your income earned while a resident of Wooster. **Please include a photocopy of both the pay stub used and a W-2 for the year.**

The other method involves pro-rating the income based on the amount of time that you lived in Wooster and were under employment. The following formula would be used:

$$\text{Weeks a Wooster Resident} \div \text{Weeks Employed} \times \text{Local Taxable Wages (the larger of Box 18 or Box 5 on W-2)}$$

Example 1:

Jim was employed by Corp X for the whole year, and lived in Wooster 24 weeks. He earned \$20,000 in local taxable income.
 $24 \text{ weeks} \div 52 \text{ weeks} \times \$20,000 \text{ in local taxable income} = \$9,231 \text{ Wooster taxable income for the partial year of residence}$

Example 2:

Jan was employed by Corp Y for 40 weeks in 2005, and lived in Wooster 18 weeks. She earned \$18,000 in local taxable income.
 $18 \text{ weeks} \div 40 \text{ weeks} \times \$18,000 \text{ in local taxable income} = \$8,100 \text{ Wooster taxable income for the partial year of residence}$

LINE BY LINE INSTRUCTIONS

Social Security Numbers, Name and Address

If not preprinted, please complete all sections that apply. If filing a joint return, please be sure to supply spouse's name and social security number. If preprinted, please make changes as necessary.

Type of Return

Check either joint or individual. You do not have to file your city return in the same manner you filed your state and federal returns. Filing a joint return saves time.

Residency Status

Check appropriate box. If you were a resident of Wooster for only part of the year, please check the part time resident box and fill in the dates that you resided in Wooster.

Income (attach one clear copy of each W-2)

Line 1a - Show the total of all wages, salaries and tips received during 2005.

Wooster residents for all of 2005

For employees subject to medicare taxes, your Wooster taxable wages would be the larger of, (a) box 5 of your W-2 (medicare wages) or (b) total of all box 18(s) of your W-2 (local wages).

If you have received a distribution from a non-qualified retirement plan, your wages should equal the highest amount on your W-2 (excluding box 1).

If you are not subject to medicare tax, your wages will equal the higher of, (a) the amount in box 18 (local wages) or, (b) the amount in box 1 plus any amounts deducted from your pay for retirement or deferred compensation.

Wooster residents for part of 2005

See examples at top of page.

Non-residents

Wooster taxable wages is the same as for residents except that wages and benefits earned outside of Wooster should not be included.

Line 1b - If you filed a federal form 2106 for unreimbursed employee business expenses, enter that amount here. Attach photocopy of Federal Form 2106.

Line 1c - Subtract line 1b from line 1a and enter the difference.

Line 2a - Enter the amount from Schedule X, line 7b

Line 2b - Enter the amount from Schedule X, line 7a

Line 3 - Add the amounts in line 1c & 2a. This is your Wooster taxable income. **Do not** deduct the loss entered on line 2b.

Tax

Line 4 - Multiply line 3 by 1% (.01). This is your Wooster Tax.

Payments

Line 5 - From your W-2(s), enter the amount of **Wooster** tax withheld. This amount should be in box 19.

Line 6 - Enter the amount from Schedule R on the back of the return. See the instructions on page 6 for Schedule R.

Line 7 - Enter the sum of the amount of 2004 overpayment that was credited to your 2005 income tax and the amount of estimated payments made towards your 2005 income tax. You will receive a mailer, around the middle of February that will detail your prior year overpayments and estimated payments made.

Line 8 - If an extension was filed for your 2005 income taxes, and you made a payment with your extension towards 2005 taxes, enter the amount here. Do not include amounts paid with your extension towards 2006 estimated taxes.

Line 9 - Enter the total of lines 5, 6, 7, & 8.

Refund or Amount Owed

Line 10 - Subtract line 9 from line 4. If less than -0-, enter here.

Line 11 - Enter the portion of line 10 which you would like refunded to you.

Line 12 - Enter the amount of line 10 which you wish to have applied to your 2006 estimated taxes.

Line 13 - Subtract line 9 from line 4. If greater than -0-, enter here. This is the amount that you owe to the City of Wooster for 2005 taxes.

Declaration of 2006 Estimated Taxes

Line 14 - Please enter the amount of your 2006 Wooster income tax estimate. Refer to the section on page 4 entitled "Who must make estimated tax payments?"

Line 15 - Put in the amount on line 14 due with this return: 25% by 4/30/06, 50% by 7/31, 75% by 10/31, & 100% 1/31/07.

Line 16 - Put in any overpayment being applied to your 2006 estimate (line 12), plus any estimated payments for 2006 already made.

Line 17 - Subtract line 16 from line 15 and enter the difference.

Line 18 - These are amounts that are past due for previous year's taxes, penalty and interest. Any payment will be applied to these amounts first.

Line 19 - Add lines 13, 17 and 18. Make check payable to "City of Wooster".

SCHEDULE R INSTRUCTIONS (WOOSTER RESIDENTS ONLY)

Column (a) - List all cities, other than Wooster, in which you had taxes withheld or have paid income tax for 2005. If more space is needed, attach schedule.

Column (b) - List type of earnings: Wages, Rental Income, Self Employment Income, Partnership Income, S-Corp income, etc...

Column (c) - List all taxable earnings for each city during 2005. Reduce any earnings by ½ the SE tax paid on those earnings (if applicable). If you were a part year resident, the wages in this column should be calculated as per the section headed "HOW DO I CALCULATE TAXABLE WAGES IF I ONLY LIVED IN WOOSTER FOR A FRACTION OF A YEAR?" (page 5). If you have filed for a refund because of time spent outside that city, only include the amount on which you are paying taxes.

Column (d) - Enter any employee business expenses deducted on line 1b of this return that relates to work performed within that city.

Column (e) - Subtract column (d) from (c) and enter the difference.

Column (f) - Multiply column e by 1% (0.01).

Column (g) - Enter the amount of tax withheld or paid to that city for 2005. If your wages were allocated because of you were a part year resident, you must allocate the withholding paid to this city by the same allocation factor, to arrive at wages paid to this city while living in Wooster. **Make sure a photocopy of either the W-2 or the city income tax return listed in (a) is attached to document the tax paid.**

Credit - Take the smaller of the amounts in columns (f) and (g), and enter the amount here. Total this column in the bottom right hand corner, and enter this amount on line 6 on the front of the return. (Note: If the City listed in column (a) has an income tax rate of less than 1%, the credit should be the lesser of column (e) multiplied by that city's tax rate or column (g).

SCHEDULE X INSTRUCTIONS

Line 1- Enter all income or losses from self-employment. Be sure to attach a photocopy of the paperwork filed with your federal return showing where this income was claimed (Schedule C's, or 1099's, etc.). Deduct ½ of any self-employment taxes you were required to pay the IRS on this income. Non-residents may then allocate any income based on their Schedule Y percentage (see below).

Line 2- List any partnership, limited liability company or S-Corporation income or losses for 2005 and attach a photocopy of the K-1 received from that partnership/LLC/S-Corp. Income or loss should be on a current basis with no passive loss restriction or carry forwards. You should also attach a photocopy of the complete Schedule E filed with your 2005 federal return, **including any accompanying statements.** You may also deduct, from partnership/LLC income, ½ of any self-employment taxes paid on that income. Residents should include all partnership/LLC income and S-corp. income allocable to Ohio. Non-residents should only include income from partnerships/LLC's/S-Corp.'s that did business in the city and may allocate per Schedule Y.

Line 3- List any rental income or royalties from tangible property. Attach a photocopy of the complete Schedule E filed, **including any accompanying statements.** Residents should include all income earned. Non-residents should only include income from property located in Wooster.

Line 4- List any other income or loss in this area. Be sure to attach the federal schedule(s) or other documentation for this income. Refer to page 3 for other taxable income types.

Line 5- Total all amounts on far right above line 5.

Line 6- Show carry forward losses from the previous five years for returns filed with the City of Wooster. Attach a schedule showing year of loss and any subsequent income that was negated by the losses. (Income negated, on previous returns, by losses over 5 years old should not be included).

Line 7- Subtract line 6 from line 5. If the amount is less than zero, place on 7a of schedule X and on line 2b on the front of the form. If the amount is greater than zero, enter on line 7b of schedule X and on line 2a on the front of the form.

SCHEDULE Y INSTRUCTIONS (NON-RESIDENTS ONLY)

Line 1- Enter the original cost of all tangible real and personal property related to the business for which allocation is made in column a, and then the same for property located in Wooster in column b. Enter any annual rental amounts paid multiplied by eight in the same fashion for the second line. Total the columns on the third line, and divide column b by a. Enter the percentage in column c.

Line 2- Enter all receipts from the sale of goods or services in column a and those for inside of Wooster in column b. Section 1701.03(b) of the Wooster Codified Ordinances sets forth the method for determining sales of goods inside and outside the City. Call our tax office at (330) 263-5226 for a copy or an explanation. Divide column b by a, and enter percentage in c.

Line 3- Do the same for line 3 as line 2 for wages.

Line 4- Total the percentages in column c.

Line 5- Divide line 4 by the number of percentages in column c. If there is an amount in column a, and none in column b, the percentage is -0-, and should be counted in determining the average. If both a and b are -0-, it should not be used in calculating the average.

*****You Must Sign Your Return (If Joint, both you and your spouse must sign)*****

**QUESTIONS ABOUT PREPARING THE RETURN?
CONTACT THE CITY OF WOOSTER INCOME TAX OFFICE
(330) 263-5224**

Forms and additional information available at www.woosteroh.com